

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**HB 1745 – SB 2237**

February 29, 2016

**SUMMARY OF BILL:** Requires managed health insurance issuer's networks to provide an adequate number of acute care hospital services, primary care providers, and specialists and subspecialists within no more than ten miles distance or twenty minutes travel time at a reasonable speed. Allows the Commissioner of Commerce and Insurance to waive or modify this requirement in specific geographic areas if the time standard is not feasible in the Commissioner or Commissioner's designee's opinion.

**ESTIMATED FISCAL IMPACT:**

**Increase State Revenue – Exceeds \$2,000,700/FY16-17**  
**Exceeds \$4,001,500/FY17-18 and Subsequent Years**

**Increase State Expenditures – Exceeds \$3,203,000/FY16-17**  
**Exceeds \$6,405,900/FY17-18 and Subsequent Years**

**Increase Federal Expenditures – Exceeds \$5,943,900/FY16-17**  
**Exceeds \$11,887,800/FY17-18 and Subsequent Years**

**Assumptions:**

- The increase in network providers will lead to an increase in overall HMO costs resulting in an increase in premiums; therefore, there will be an increase in HMO premium tax collections by the Department of Commerce and Insurance (C&I).
- Based on information provided by C&I, the total HMO premium tax revenue collected in FY15-16 was \$400,149,407.
- Assuming a one percent increase in total HMO premiums will result in a corresponding one percent increase in HMO premium tax collections to C&I, the total recurring increase in state revenue is estimated to be \$4,001,494 (\$400,149,407 x 0.01).
- Due to the effective date of January 1, 2017, the increase in state revenue for FY16-17 is estimated to be 50 percent of the full-year increase, or \$2,000,747 (\$4,001,494 x 0.50).
- The TennCare program pays the premium tax for its enrollees. Based on information previously provided by the Bureau of TennCare regarding HMO premium taxes it is estimated that TennCare pays for approximately 7.34 of the total HMO premium tax collections. Assuming 7.34 percent of the total increase in the HMO premium tax

collections would be TennCare expenditures, the annual premium tax for TennCare enrollees is estimated to be \$293,710 ( $\$4,001,494 \times 0.0734$ ).

- Based on information provided by the Bureau of TennCare, the provisions of the proposed legislation would require health maintenance organizations (HMOs) to increase their network of providers in order to adhere to the requirements of the proposed legislation. This would result in some providers using the proposed requirements to negotiate higher rates in areas where these standards are more stringent.
- Currently, network provider professionals spend \$900,000,000 annually providing services. Assuming 10 percent of professionals request higher rates at an increased rate of 20 percent, it would result in an increase in expenditures of \$18,000,000 ( $\$900,000,000 \times .10 \times .20$ )
- Medicaid expenditures receive matching funds at a rate of 64.983 percent federal funds to 35.017 percent state funds. State funds are estimated to be \$6,405,908 [ $(\$18,000,000 + \$293,710) \times .35017$ ] and federal funds are estimated to be \$11,887,802 [ $(\$18,000,000 + \$293,710) \times .64983$ ].
- Due to the effective date of January 1, 2017, the increase in state and federal expenditures for FY16-17 is estimated to be 50 percent of the full-year increase, or \$3,202,954 ( $\$6,405,908 \times 0.50$ ) for the state and \$5,943,901 ( $\$11,887,802 \times 0.50$ ) for the federal government.
- Based on information provided by C&I, both the Insurance and TennCare Oversight Divisions of the Department will be impacted. The Insurance Division will be required to investigate complaints and take appropriate regulatory action against organizations as a result of determined non-compliance. The TennCare Oversight Division will be required to investigate complaints and take appropriate regulatory action against non-complaint TennCare HMOs. These activities can be performed within existing resources.
- According to information provided by Finance and Administration, Division of Benefits Administration, the Division does not currently contract with managed health insurance issuers as defined in Tenn. Code Ann. § 56-32-128(a).

## **IMPACT TO COMMERCE:**

**Increase Business Revenue – \$75,846,600/FY16-17**

**\$151,693,200/FY17-18 and Subsequent Years**

**Increase Business Expenses –**

**Exceeds \$35,350,000/FY16-17**

**Exceeds \$70,700,000/FY17-18 and Subsequent Years**

Assumptions:

- The increase in HMO premium tax collected by the state will be an increase in expenditures for HMOs resulting in business expenses exceeding \$4,000,000 annually.

- HMO will increase premiums estimated to be at least one percent to cover the increase in expenditures to pay providers estimated to be \$66,700,000 [ $(\$400,149,407 \text{ total collections} / 0.06 \text{ tax}) \times 0.01 \text{ increase}$ ].
- This will also be a corresponding increase in revenue to providers of \$66,700,000.
- The increase in expenditures to TennCare will result in a corresponding increase in revenue to providers estimated to exceed \$18,293,200 annually.
- The total increase in business expenditures is estimated to be \$70,700,000 (\$4,000,000 tax + \$66,700,000 payments to providers).
- The total increase in business revenue is estimated to be \$151,693,200 (\$66,700,000 HMO premium collections + \$66,700,000 provider payment collections + \$18,293,200 provider payments from TennCare).
- The provisions of the bill are effective January 1, 2017, therefore the fiscal impact in FY16-17 will be 50 percent of the total impact resulting in business revenue of \$75,846,600 ( $\$151,693,200 \times 0.50$ ) and business expenditures of \$35,350,000 ( $\$70,700,000 \times 0.50$ ).

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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